

**LEON COUNTY EDUCATIONAL
FACILITIES AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
TABLE OF CONTENTS
SEPTEMBER 30, 2014**

	<u>Page(s)</u>
Independent Auditors' Report	1 – 3
Management's Discussion and Analysis	4 – 9
Basic Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position (Deficit)	11
Statement of Cash Flows	12
Notes to Financial Statements	13 – 26
Additional Information	27
Schedule of Other Operating Expenses	28
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29 – 31
Independent Auditors' Management Letter Required by Chapter 10.550, Rules of the State of Florida, Office of the Auditor General	32 – 34
Independent Accountants' Examination Report	35
Corrective Action Plan	36

INDEPENDENT AUDITORS' REPORT

To the Authority Members,
Leon County Educational Facilities Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Leon County Educational Facilities Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Leon County Educational Facilities Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

- 1 -

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386/257-4100
Fax: 386/255-3261
dab@jmco.com

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352/378-1331
Fax: 352/372-3741
gnv@jmco.com

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850/386-6184
Fax: 850/422-2074
tlh@jmco.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Leon County Educational Facilities Authority, as of September 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note I (c)10 to the financial statements, in 2014, the entity adopted GASB *Statement No. 65, Items Previously Reported As Assets and Liabilities*. The effects of these standards have also been applied to the financial statements as of and for the year ended September 30, 2013. See Note I (c)10 for the effect of GASB 65 on beginning net position. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Leon County Educational Facilities Authority's basic financial statements. The Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Operating Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2015 on our consideration of Leon County Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leon County Educational Facilities Authority's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Tallahassee, Florida
February 28, 2015

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

As management of the Leon County Educational Facilities Authority, we offer readers of the Leon County Educational Facilities Authority's financial statements this narrative overview and analysis of the financial activities of the Leon County Educational Facilities Authority for the fiscal year ended September 30, 2014.

These statements include the operations of LCEFA Ocala Road, LLC, a component unit of Leon County Educational Facilities Authority. The LLC is referred to in these statements as the "Heritage Grove Fund."

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Leon County Educational Facilities Authority's basic financial statements. The Leon County Educational Facilities Authority's basic financial statements are comprised of two components: 1) fund financial statements and 2) notes to the financial statements.

Fund financial statements. *A fund is a* grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Leon County Educational Facilities Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Leon County Educational Facilities Authority has three proprietary funds.

Proprietary funds. The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The basic financial statements can be found on pages 10 – 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 – 26 of this report.

Fund Financial Analysis

Net position may serve over time as a useful indicator of the Authority's financial position. In the case of Leon County Educational Facilities Authority, liabilities exceeded assets by \$38,066,293 at the close of the most recent fiscal year. This reported deficit net position is created by the unpaid principal and accrued interest on the Southgate Residence Hall 1998 Series B subordinated revenue refunding bonds of approximately \$45,000,000. In the event of a default of the 1998 Series A bonds, the Series B bonds are subject to extinguishment and cancellation, without recourse against the Authority or Leon County, Florida. The Authority's Southgate Residence Hall has Subordinate Revenue Refunding Bonds in the amount of \$20,500,000 with an average interest rate of 7.283 percent.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

The Authority, in some years, has not had enough cash flow from the operations of the residence hall to pay interest due on the subordinated bonds. Per the bond documents, the unpaid interest then becomes additional principal to accrue interest. The annual interest accrues at approximately \$1,560,000 per year on these bonds. With the unpaid amount of interest also accruing interest, the amount of accrued interest on the financials from the subordinated bonds is approximately \$24,500,000. Excluding the Series B bonds and related accrued interest, the net position of the Authority is approximately \$7,000,000.

A portion of the Leon County Educational Facilities Authority's net position reflects a deficit in net investment in capital assets (e.g., land, buildings, machinery, and equipment). The deficit is created because the investment in capital assets is reduced by any related debt used to acquire those assets that is still outstanding as well as any accumulated depreciation on those assets. The Leon County Educational Facilities Authority utilizes its capital assets to provide housing services to students; consequently, these assets are not available for future spending. The Southgate fund will continue to have a deficit in the foreseeable future. With internal changes in the management company, and the new marketing plan and new budgets implemented, the deficits should begin to decrease as the economic landscape improves over time.

Leon County Educational Facilities Authority's Net Position

	2014	Restated 2013
Current and other assets	\$ 6,787,542	\$ 6,549,446
Capital assets	28,488,806	28,905,275
Deferred outflows of resources	3,032,224	3,243,424
Total assets	38,308,572	38,698,145
Long-term liabilities outstanding	71,537,150	70,991,050
Other liabilities	4,837,715	4,395,166
Total liabilities	76,374,865	75,386,216
Net position:		
Net invested in capital assets	(16,633,970)	(16,971,301)
Restricted	4,280,922	4,363,778
Unrestricted	(25,713,245)	(24,080,548)
Total net position (deficit)	\$ (38,066,293)	\$ (36,688,071)

An additional portion of the Leon County Educational Facilities Authority's net position represents resources that are subject to external restrictions on how they may be used.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

Leon County Educational Facilities Authority's Changes in Net Position

	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 8,693,068	\$ 8,518,171
Interest and other income	1,720	67,588
Total revenues	8,694,788	8,585,759
Expenses:		
Student housing	10,073,010	9,979,060
Decrease in net position	(1,378,222)	(1,393,301)
Net position (deficit), beginning of year	(36,688,071)	(35,294,770)
Net position (deficit), end of year	\$ (38,066,293)	\$ (36,688,071)

The \$1,401,386 decrease in net position from 2013 to 2014 includes \$1,512,866 of depreciation and amortization expense, \$982,126 of interest expense on the Series 2003 bonds, \$804,525 on the Series A 1998 bonds, and \$1,563,125 on the Series B 1998 bonds.

Results of Operations. Southgate's financial performance between years at the operating income level (before interest expense) was as follows:

	Southgate Statement of Operations For the Fiscal Year Ended:			
	2014	2013	\$ CHG.	% CHG.
Revenues	\$ 6,298,526	\$ 6,149,274	\$ 149,252	2.4%
Operating expenses:				
Personnel Costs	1,296,808	1,240,186	56,622	4.6%
Other Operating Costs	1,009,251	993,260	15,991	1.6%
Food Costs	763,346	752,937	10,409	1.4%
Utilities	620,870	621,806	(936)	-0.2%
Repair and Maintenance	416,974	353,818	63,156	17.8%
Depreciation and Amortization	547,733	570,731	(22,998)	-4.0%
Total expenses	4,654,982	4,532,738	122,244	2.7%
Operating income	\$ 1,643,544	\$ 1,616,536	\$ 27,008	1.7%

Southgate increased revenues 2% between years while, at the same time, increased operating expenses by 3%.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

The analysis below illustrates Southgate's operating expenses while the operation grew 2.0% in revenue during the year:

Southgate Statement of Operations For the Fiscal Year Ended:				
	2014	% of Revenues	2013	% of Revenues
Revenues	\$ 6,298,526	100.0%	\$ 6,149,274	100.0%
Operating expenses:				
Personnel Costs	1,296,808	20.6%	1,240,186	20.2%
Other Operating Costs	1,009,251	16.0%	993,260	16.2%
Food Costs	763,346	12.1%	752,937	12.2%
Utilities	620,870	9.9%	621,806	10.1%
Repair and Maintenance	416,974	6.6%	353,818	5.8%
Depreciation and Amortization	547,733	8.7%	570,731	9.3%
Total expenses	<u>4,654,982</u>	<u>73.9%</u>	<u>4,532,738</u>	<u>73.7%</u>
Operating income	<u>\$ 1,643,544</u>	<u>26.1%</u>	<u>\$ 1,616,536</u>	<u>26.3%</u>

Last year, out of every dollar of revenue, management spent \$.74, yielding an operating income net margin of 26%. This fiscal year, out of every dollar of revenue, management spent \$.74, yielding an operating income net margin of 26%.

Heritage Grove Statement of Operations For the Fiscal Year Ended:				
	2014	2013	\$ CHG.	% CHG.
Revenues	\$ 2,394,542	\$ 2,368,897	\$ 25,645	1.1 %
Operating expenses:				
Personnel Costs	255,114	260,084	(4,970)	-1.9%
Other Operating Costs	312,655	333,737	(21,082)	-6.3%
Utilities	45,888	45,461	427	.09%
Repair and Maintenance	176,916	181,756	(4,840)	-2.7%
Depreciation and Amortization	965,133	1,005,397	(40,264)	-4.0%
Total	<u>1,755,706</u>	<u>1,826,435</u>	<u>(70,729)</u>	<u>-3.9%</u>
Operating income	<u>\$ 638,836</u>	<u>\$ 542,462</u>	<u>\$ 96,374</u>	<u>17.8%</u>

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

Heritage Grove Statement of Operations For the Fiscal Year Ended:				
	2014	% of Revenues	2013	% of Revenues
Revenues	\$ 2,394,542	100.0%	\$ 2,368,897	100.0%
Operating expenses:				
Personnel Costs	255,114	10.7%	260,084	11.0%
Other Operating Costs	312,655	13.1%	333,737	14.1%
Utilities	45,888	1.9%	45,461	1.9%
Repair and Maintenance	176,916	7.4%	181,756	7.7%
Depreciation and Amortization	965,133	40.3%	1,005,397	42.4%
Total	1,755,706	72.9%	1,826,435	77.1%
Operating income	\$ 638,836	26.7%	\$ 542,462	22.9%

As revenues increased 1.0% between years, Heritage Grove operational expenses decreased by 4%. Last year, out of every dollar of revenue, management spent \$.77, yielding an operating income net margin of 23%. This fiscal year, out of every dollar of revenue, management spent \$.73, yielding an operating income net margin of 27%.

Capital Asset and Debt Administration

Capital assets. The Leon County Educational Facilities Authority's investment in capital assets for its business type activities as of September 30, 2014, amounts to \$ 27,541,794 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, and equipment.

Additional information on the Leon County Educational Facilities Authority's capital assets can be found in note II.C. on page 18 of this report.

Long-term debt. At the end of the current fiscal year, the Leon County Educational Facilities Authority had long-term debt consisting of revenue bonds outstanding and accrued interest of approximately \$73,000,000. These bonds are secured solely by specified revenue sources.

These bonds, together with interest thereon, are not general obligations of the Authority and do not constitute obligations, either general or special, of the State of Florida, Leon County, Florida or any political subdivision thereof, but are special limited obligations of the Authority payable solely and only from the pledged revenues, as specifically provided in all financing related agreements of the Authority. Bond obligations are not payable out of any fund or properties other than those of the Authority, and then only as to the particular project to which the bonds relate. Neither the faith and credit nor the revenues or taxing power of Leon County, Florida, the State of Florida or any political subdivision, is pledged to the payment of the principal of any Authority issued bonds or the interest thereon or other costs incident thereto.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in note II.D. on pages 18 – 23 of this report.

Other Information

The Authority is party to routine legal proceedings and litigation (tenant evictions and the like) arising in the ordinary course of business. In the opinion of management, the outcome of such routine actions will have no material impact on the Authority's financial condition.

Of extraordinary note, however, as has been regularly reported to the Authority by its legal counsel and Heritage Grove management, Coastal Property Services, Inc.; significant issues pertaining to the original construction of the apartment buildings, discovered in the course of routine repair and inspection in May of 2012, continue to be addressed. These issues will continue to impact the property's operating funds and budget until resolution, as the management company has or may be required to offer rent concessions to maintain adequate occupancy levels while the property awaits or is under repair. Original estimates were that the cost to correct the issues would be in the neighborhood of \$3 million; however subsequent investigations and inspections of the extent of the deficiencies arising from the original construction, and more recent estimates as to projected repair costs of same may be as much or more than \$6 million. A lawsuit against the original development/design/construction team for Heritage Grove was filed by the Authority, and while a negotiated settlement is being pursued in an effort to more quickly obtain damages/compensation to effectuate necessary repairs, the Authority will continue to aggressively prosecute the case through trial if necessary. The cost of litigation will also impact the Authority's funds which might otherwise be available for the project or other Authority purposes. The Authority is also seeking temporary financing from outside sources which may allow further repairs to the property pending the outcome of the litigation.

The Authority was additionally named as a defendant in a lawsuit over a leasehold interest in a vacant parcel within the Heritage Grove project. The lawsuit claims that the lessee of such interest is entitled to terminate its obligations thereunder and be refunded monies provided by it in the initial development of the project, which was consideration to induce the Authority to allow such lessee use of the property to develop its own student housing. The Authority's position is that it has valid defenses against such claim and that is not obligated to the lessee for any refund; nonetheless the Authority and the lessee are actively engaged in good faith negotiations to resolve the claim, whereby the Authority would retake possession of the leasehold interest in exchange for a reasonable release payment to the lessee, after which the Authority may then develop the vacant parcel for its own student housing purposes, or assign the interest to another appropriate entity for student housing development.

Requests for Information

This financial report is designed to provide a general overview of the Leon County Educational Facilities Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, P.O. Box 11154, Tallahassee, Florida 32302.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

ASSETS	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Current assets				
Cash and cash equivalents	\$ 1,128,073	\$ 102,075	\$ 207,837	\$ 1,437,985
Certificates of deposit	-	-	33,529	33,529
Investments	-	93,616	-	93,616
Accounts receivable, net	124,825	13,550	-	138,375
Due from other funds	-	-	116,800	116,800
Inventories and prepaid items	179,713	38,984	-	218,697
Restricted assets:				
Cash and cash equivalents	312,800	136,416	-	449,216
Investments	2,200,816	2,098,508	-	4,299,324
Total current assets	<u>3,946,227</u>	<u>2,483,149</u>	<u>358,166</u>	<u>6,787,542</u>
Noncurrent assets				
Capital assets, not being depreciated	2,400,000	-	-	2,400,000
Capital assets, net of accumulated depreciation	10,355,886	14,785,908	-	25,141,794
Prepaid bond insurance	-	947,012	-	947,012
Total noncurrent assets	<u>12,755,886</u>	<u>15,732,920</u>	<u>-</u>	<u>28,488,806</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on refunding	3,032,224	-	-	3,032,224
Total Assets and Deferred Outflows	<u>\$ 19,734,337</u>	<u>\$ 18,216,069</u>	<u>\$ 358,166</u>	<u>\$ 38,308,572</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$ 776,923	\$ 142,419	\$ -	\$ 919,342
Deferred revenue	2,105,305	169,939	-	2,275,244
Deposits payable	121,333	136,285	-	257,618
Due to other funds	76,832	39,968	-	116,800
Accrued interest payable	50,000	160,000	-	210,000
Current portion of notes payable	15,229	28,482	-	43,711
Current portion of revenue bonds payable	380,000	635,000	-	1,015,000
Total current liabilities	<u>3,525,622</u>	<u>1,312,093</u>	<u>-</u>	<u>4,837,715</u>
Noncurrent liabilities				
Accrued interest payable	24,397,150	-	-	24,397,150
Series 2003 revenue bonds payable	-	18,560,000	-	18,560,000
Revenue refunding bonds, Series 1998A	8,080,000	-	-	8,080,000
Revenue refunding bonds, Series 1998B	20,500,000	-	-	20,500,000
Total noncurrent liabilities	<u>52,977,150</u>	<u>18,560,000</u>	<u>-</u>	<u>71,537,150</u>
Total Liabilities	<u>56,502,772</u>	<u>19,872,093</u>	<u>-</u>	<u>76,374,865</u>
NET POSITION				
Net invested in capital assets	(13,171,890)	(3,462,080)	-	(16,633,970)
Restricted for debt service	2,342,283	1,938,639	-	4,280,922
Unrestricted	(25,938,828)	(132,583)	358,166	(25,713,245)
Total Net Position (Deficit)	<u>(36,768,435)</u>	<u>(1,656,024)</u>	<u>358,166</u>	<u>(38,066,293)</u>
Total Liabilities and Net Position	<u>\$ 19,734,337</u>	<u>\$ 18,216,069</u>	<u>\$ 358,166</u>	<u>\$ 38,308,572</u>

The accompanying notes to financial statements
are an integral part of this statement.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION (DEFICIT)
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Southgate Fund</u>	<u>Heritage Grove Fund</u>	<u>Administrative Fund</u>	<u>Total</u>
Operating revenues	\$ 6,298,526	\$ 2,394,542	\$ -	\$ 8,693,068
Operating expenses				
Personnel costs	1,296,808	255,114	49,994	1,601,916
Other operating costs	1,009,251	312,655	262,552	1,584,458
Food costs	763,346	-	-	763,346
Utilities	620,870	45,888	-	666,758
Repairs and maintenance	416,974	176,916	-	593,890
Depreciation and amortization	547,733	965,133	-	1,512,866
Total operating expenses	<u>4,654,982</u>	<u>1,755,706</u>	<u>312,546</u>	<u>6,723,234</u>
Operating income (loss)	<u>1,643,544</u>	<u>638,836</u>	<u>(312,546)</u>	<u>1,969,834</u>
Nonoperating revenues (expenses)				
Interest expense	(2,367,650)	(982,126)	-	(3,349,776)
Interest and other income	417	631	672	1,720
Total nonoperating revenues (expenses)	<u>(2,367,233)</u>	<u>(981,495)</u>	<u>672</u>	<u>(3,348,056)</u>
Loss before operating transfers	<u>(723,689)</u>	<u>(342,659)</u>	<u>(311,874)</u>	<u>(1,378,222)</u>
Transfers				
Transfers in of issuer and management fees per trust indenture	-	-	146,293	146,293
Transfers out of issuer and management fees per trust indenture	(146,293)	-	-	(146,293)
Total transfers	<u>(146,293)</u>	<u>-</u>	<u>146,293</u>	<u>-</u>
Change in net position	<u>(869,982)</u>	<u>(342,659)</u>	<u>(165,581)</u>	<u>(1,378,222)</u>
Net position (deficit), beginning of year, as restated	(35,898,453)	(1,313,365)	523,747	(36,688,071)
Net position (deficit), end of year	<u>\$ (36,768,435)</u>	<u>\$ (1,656,024)</u>	<u>\$ 358,166</u>	<u>\$ (38,066,293)</u>

The accompanying notes to financial statements
are an integral part of this statement.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014
Increase (Decrease) in Cash and Cash Equivalents

	<u>Southgate Fund</u>	<u>Heritage Grove Fund</u>	<u>Administrative Fund</u>	<u>Total</u>
Cash flows from operating activities				
Cash received from residents and others	\$ 6,214,575	\$ 2,438,907	\$ -	\$ 8,653,482
Cash paid to suppliers and others	(3,570,747)	(738,483)	(346,475)	(4,655,705)
Net cash provided by (used in) operating activities	<u>2,643,828</u>	<u>1,700,424</u>	<u>(346,475)</u>	<u>3,997,777</u>
Cash flows from noncapital financing activities				
Transfers in	-	42,426	295,127	337,553
Transfers out	(337,553)	-	-	(337,553)
Net cash provided by (used in) noncapital financing activities	<u>(337,553)</u>	<u>42,426</u>	<u>295,127</u>	<u>-</u>
Cash flows from capital and related financing activities				
Principal payments on long-term debt	(360,000)	(605,000)	-	(965,000)
Proceeds from notes payable	90,866	96,398	-	187,264
Payments on notes payable	(94,824)	(97,425)	-	(192,249)
Interest paid	(595,350)	(992,126)	-	(1,587,476)
Net cash used in capital and related financing activities	<u>(959,308)</u>	<u>(1,598,153)</u>	<u>-</u>	<u>(2,557,461)</u>
Cash flows from investing activities				
Purchases of property and equipment	(894,412)	(201,985)	-	(1,096,397)
Purchase of certificates of deposit and investments	(367,993)	-	-	(367,993)
Proceeds from certificates of deposit and investments	-	164,303	106,134	270,437
Interest and other proceeds	417	631	672	1,720
Net cash provided by (used in) investing activities	<u>(1,261,988)</u>	<u>(37,051)</u>	<u>106,806</u>	<u>(1,192,233)</u>
Net increase in cash and cash equivalents	<u>84,979</u>	<u>107,646</u>	<u>55,458</u>	<u>248,083</u>
Cash and cash equivalents, beginning of year	<u>1,355,894</u>	<u>130,845</u>	<u>152,379</u>	<u>1,639,118</u>
Cash and cash equivalents, end of year	<u>\$ 1,440,873</u>	<u>\$ 238,491</u>	<u>\$ 207,837</u>	<u>\$ 1,887,201</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 1,643,544	\$ 638,836	\$ (312,546)	\$ 1,969,834
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	547,733	965,133	-	1,512,866
Changes in assets and liabilities:				
Increase (decrease) in accounts payable and accrued expenses	535,569	51,768	(33,929)	553,408
Increase in deposits	11,208	4,944	-	16,152
Increase in deferred revenue	(48,123)	37,389	-	(10,734)
(Increase) decrease in accounts receivable	(47,036)	2,032	-	(45,004)
Increase in inventory and prepaid items	933	322	-	1,255
Total adjustments	<u>1,000,284</u>	<u>1,061,588</u>	<u>(33,929)</u>	<u>2,027,943</u>
Net cash provided by (used in) operating activities	<u>\$ 2,643,828</u>	<u>\$ 1,700,424</u>	<u>\$ (346,475)</u>	<u>\$ 3,997,777</u>
Supplemental Schedule of non cash operating and financing activities:				
Financed insurance premiums	<u>\$ 90,866</u>	<u>\$ 96,398</u>	<u>\$ -</u>	<u>\$ 187,264</u>

The accompanying notes to financial statements
are an integral part of this statement.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. Summary of Significant Accounting Policies:

(a) Reporting Entity

The Leon County Educational Facilities Authority (the “Authority”) is a public instrumentality created by the Higher Educational Facilities Authorities Law, Chapter 69-345, Laws of Florida, 1969 (Chapter 243, Part II, Florida Statutes), as revised and amended, to assist institutions of higher education within Leon County, Florida in the construction, financing or refinancing of projects (structures and machinery and equipment related to the operation of the structure) required or useful for the instruction of students or the operation of an institution of higher education. The accompanying financial statements present the Authority and its component unit, an entity for which the Authority is considered to be financially accountable.

A blended component unit, although a legally separate entity, is, in substance, part of the Authority’s operations. The one blended component unit of the Authority is LCEFA Ocala Road, LLC (the “LLC”). The LLC was formed to own the leasehold interest in the property commonly known as Heritage Grove and owe the related bonded debt. The LLC is governed by the Authority board members. The LLC is referred to in the financial statements of the Authority as the “Heritage Grove Fund.”

(b) Measurement focus, basis of accounting, and financial statement presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority reports the following funds:

The *Southgate fund* accounts for the activities of the Authority’s Southgate Residence Hall rental operations.

The *Heritage Grove fund* accounts for the activities of the Authority’s component unit which serves largely fraternal organization oriented rental operations.

The *Administrative fund* accounts for the activities of the Authority’s administration of the rental operations.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

I. Summary of Significant Accounting Policies: (Continued)

(c) Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. *Deposits and Investments*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in direct obligations of the U.S. Treasury, Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, SEC registered money market funds with the highest credit quality rating, and savings and CD accounts in state-certified public depositories.

Investments are stated at fair value.

2. *Inventories and Prepaid Items*

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method.

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. *Capital Assets*

Capital assets include property, plant, equipment, and any infrastructure assets. For financial reporting purposes, capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	27.5 – 40
Furniture, fixtures and equipment	5 – 15

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. Summary of Significant Accounting Policies: (Continued)

(c) Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(Continued)

4. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds” (i.e., the current portion of loans) or “advances to / from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.”

5. *Restricted Assets*

Certain proceeds of the Authority’s enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

6. *Deferred Revenue*

Deferred revenue consists of operating revenues collected from Southgate and Heritage Grove residents for the 2014-2015 school year. The revenue is recognized as earned on a monthly basis.

7. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. *Net position flow assumption*

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the Authority’s financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. *Deferred outflows/inflows of resources*

In addition to assets, the statement of position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. Summary of Significant Accounting Policies: (Continued)

(c) Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any of these items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category.

10. *Change in Accounting Principle*

In March 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, Elements of Financial Statements, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The requirements of GASB 65 are effective for periods beginning after December 15, 2012, or for fiscal year 2014. The implementation of GASB 65 during fiscal year 2014 resulted in the removal of approximately \$1.29 million of unamortized bond issuance costs and resulted in the reduction of net investment in capital assets in the statement of net position by the same amount.

(d) Revenues and expenditures/expenses

1. *Operating and nonoperating revenues and expenses*

Amounts reported as program revenues include charges to customers or applicants for rents, services, or privileges provided.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of the Authority are charges for rents and services. Operating expenses for the Authority include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds:

(a) Deposits and Investments

Deposits. At September 30, 2014, the Authority's carrying amount of deposits was \$1,920,730 and the bank balance was \$1,840,567. Of the bank balance, the Authority's deposits are entirely collateralized by Federal depository insurance or by collateral held by the Authority's custodial bank which is pledged to a state trust fund that provides security in accordance with Florida Security for Deposits Act, Chapter 280, for amounts held in excess of FDIC coverage.

The Florida Security for Public Deposits Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral.

Investments. At September 30, 2014 the Authority had the following investments:

	Fair Value
Money market funds	<u>\$ 4,392,940</u>

Custodial Credit Risk – The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws.

Credit Risk – The Authority's policies are designed to maximize investment earnings while protecting the security of the principal and providing adequate liquidity, in accordance with applicable state laws.

Interest Rate Risk – In accordance with investment policy, the Authority manages its exposure to interest rate risk by limiting the maturity of its investments.

(b) Receivables

Receivables as of September 30, 2014, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Gross receivables	\$ 127,966	\$ 13,550	\$ –	\$ 141,516
Less: allowance for uncollectibles	3,141	–	–	3,141
Net total receivables	<u>\$ 124,825</u>	<u>\$ 13,550</u>	<u>\$ –</u>	<u>\$ 138,375</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds: (Continued)

(c) Capital Assets

The following is a summary of capital assets at September 30, 2014:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
Construction in progress	239,025	-	239,025	-
Total capital assets not being depreciated	<u>2,639,025</u>	<u>-</u>	<u>239,025</u>	<u>2,400,000</u>
Capital assets being depreciated:				
Buildings and improvements	40,232,186	1,279,642	-	41,511,828
Equipment	5,398,949	55,787	57,442	5,397,294
Total capital assets being depreciated	<u>45,631,135</u>	<u>1,335,429</u>	<u>57,442</u>	<u>46,909,122</u>
Less accumulated depreciation:				
Buildings and improvements and equipment	(20,333,263)	(1,434,065)	-	(21,767,328)
Total capital assets being depreciated, net	<u>25,297,872</u>	<u>(98,636)</u>	<u>57,442</u>	<u>25,141,794</u>
Capital assets, net	<u>\$ 27,936,897</u>	<u>\$ (98,636)</u>	<u>\$ 296,467</u>	<u>\$ 27,541,794</u>

Depreciation expense was charged as follows:

Southgate Fund	\$ 518,778
Heritage Grove Fund	915,287
	<u>\$ 1,434,065</u>

(d) Long-term Debt

Southgate Fund

Revenue Refunding Bonds

On May 29, 1998, the Authority issued \$12,000,000 in Revenue Refunding Bonds Series 1998A and \$20,500,000 in Subordinated Revenue Refunding Bonds Series 1998B with an average interest rate of 7.283 percent to advance refund \$23,075,000, of 1991 Senior Certificates of Participation and \$1,145,000 of 1991 Subordinate Certificates of Participation. The net proceeds of \$30,408,190 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Senior and Subordinate Certificates of Participation. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$7 million and is amortized over life of the new debt. At September 30, 2014, the amount of in substance defeased debt which remained outstanding was \$1,145,000.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds: (Continued)

(d) **Long-term Debt** (Continued)

These bonds, together with interest thereon, are not general obligations of the Authority and do not constitute obligations, either general or special, of the State of Florida, Leon County, Florida or any political subdivision thereof, but are special limited obligations of the Authority payable solely and only from the pledged revenues, as provided in the indenture. Neither Leon County, Florida nor the State of Florida or any political subdivision are liable thereon; nor in any event are these bonds payable out of any fund or properties other than those of the Authority, and then only to the extent provided in the indenture. Neither the faith and credit nor the revenues or taxing power of Leon County, Florida, the State of Florida or any political subdivision is pledged to the payment of the principal of these bonds or the interest thereon or other costs incident thereto.

These Revenue Refunding Bonds were issued pursuant to an indenture of trust between the Authority and the Bank (the "indenture"). This indenture requires the Authority to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The Authority deposits all receipts into a "revenue fund" which is used to pay operating expenses and then to fund the restricted bond accounts.

A summary of the Southgate Fund long-term debt at September 30, 2014 is as follows:

Revenue Refunding Bonds Series 1998A issued May 1998 in the amount of \$12,000,000 at an interest rate of 6.75% due in 30 annual installments. Interest is due semi-annually with principal maturity paid from March 1, 1999 through September 1, 2028.	\$ 8,460,000
Subordinated Revenue Refunding Bonds Series 1998B issued May, 1998 in the amount of \$20,500,000 at an interest rate of 7.625%. Interest is due annually on September 15th with principal maturity paid from September 2021 through September 2028.	20,500,000
Total Revenue Refunding Bonds	<hr style="width: 100%; border: 0.5px solid black;"/> 28,960,000
Less current portion (Series 1998A)	380,000
Total Revenue Refunding Bonds, noncurrent	<hr style="width: 100%; border: 0.5px solid black;"/> \$ 28,580,000

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds: (Continued)

(d) **Long-term Debt** (Continued)

The Series 1998B Bonds are secured only to the limited extent set forth in the indenture. The owners of the Series 1998B Bonds have limited rights to exercise remedies under the indenture. In the event of a default and acceleration of the Series 1998A Bonds and any Parity bonds, both of which are senior to the 1998B Bonds, and insufficient moneys remain in the trust estate to pay the Series 1998B Bonds after payment in full of the Series 1998A Bonds and any Parity bonds, the Series 1998B Bonds in excess of remaining amounts in the trust estate are subject to extinguishment and cancellation as provided in the indenture.

The Series 1998B Bonds are subordinated and subject in right of payment to the prior payment in full of the Series 1998A Bonds and any Parity Bonds. No payment on account of principal, premium, if any, or interest on any Series 1998B Bonds shall be made, nor shall any of the Trust Estate pledged under the Indenture be applied to the purchase or other acquisition or retirement of any Series 1998B Bonds, unless full payment of amounts then due and payable for principal, premium, if any, sinking funds, if any, and interest on the Series 1998A Bonds and any Parity Bonds has been made or duly provided for in accordance with the terms of the Indenture. In addition, no payment on account of principal, premium, if any, or interest on any Series 1998B Bonds shall be made, nor shall any of the Trust Estate pledged under the Indenture be applied to the purchase or other acquisition or retirement of any Series 1998B Bonds, if, at the time of such payment or application or immediately after giving effect thereto, (i) there are Series 1998A Bonds and any Parity Bonds Outstanding and unpaid and the Trustee or the Owners of the Series 1998A Bonds and any Parity Bonds have declared the acceleration of the Maturity thereof or (ii) there are Series 1998A Bonds and any Parity Bonds Outstanding and there has occurred an Event of Default which permits the Trustee or the Owners of Series 1998A Bonds and any Parity Bonds to declare the acceleration of the Maturity of the Series 1998A Bonds and any Parity Bonds, unless such acceleration (if declared) has been rescinded or such Event of Default has been cured or waived as permitted in the Indenture, or the Owners of a majority in aggregate principal amount of Series 1998A Bonds and any Parity Bonds Outstanding have consented to such payment.

The Series 1998A and 1998B Revenue bond debt service to maturity, excluding interest accrued on past due interest of the 1998B Bonds, is as follows:

	1998 A		1998 B	
	Principal	Interest	Principal	Interest
2015	\$ 380,000	\$ 571,050	\$ —	\$ 1,563,125
2016	405,000	545,400	—	1,563,125
2017	435,000	518,063	—	1,563,125
2018	465,000	488,700	—	1,563,125
2019	495,000	457,313		1,563,125
2020-2024	3,030,000	1,736,776	7,500,000	7,275,394
2025-2028	3,250,000	566,326	13,000,000	2,574,200
	<u>\$ 8,460,000</u>	<u>\$ 4,883,628</u>	<u>\$ 20,500,000</u>	<u>\$ 17,665,219</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds: (Continued)

(d) **Long-term Debt** (Continued)

Heritage Grove Fund

Student Housing Revenue Bonds (Series 2003)

In December 2003, the Authority issued Heritage Grove Project (the “Project”) Student Housing Revenue Bonds (Series 2003) in the amount of \$23,315,000, with interest rates ranging from 4.125% – 5.125%. These bonds were issued to provide funds (i) to finance the cost of developing, designing, acquiring, constructing and equipping a 384 bed student housing facility, including the buildings, furniture, fixtures and equipment to be located near the campus of Florida State University, (ii) to fund interest on the Series 2003 Bonds during construction and for a period after construction of the Project, (iii) to fund the Debt Service Reserve Fund and (iv) pay a portion of the costs of issuance of the Series 2003 Bonds.

A summary of the Heritage Grove long-term debt at September 30, 2014 is as follows:

Student Housing Revenue Bonds Series 2003 issued December 2003 in the amount of \$23,315,000 with interest rates ranging from 3% - 5.125%. Principal and interest is due annually on August 1.	\$ 19,195,000
Less current portion	635,000
Total Revenue Bonds, noncurrent	\$ 18,560,000

These bonds, together with interest thereon, are not general obligations of the Authority and do not constitute obligations, either general or special, of the State of Florida, Leon County, Florida or any political subdivision thereof, but are special limited obligations of the Authority payable solely and only from the pledged revenues, as provided in the indenture. Neither Leon County, Florida, nor the State of Florida or any political subdivision are liable thereon; nor in any event are these bonds payable out of any fund or properties other than those of the Authority, and then only to the extent provided in the indenture. Neither the faith and credit nor the revenues or taxing power of Leon County, Florida, the State of Florida or any political subdivision is pledged to the payment of the principal of these bonds or the interest thereon or other costs incident thereto.

These Revenue Bonds were issued pursuant to an indenture of trust between the Authority and the Bank (the “indenture”). This indenture requires the Authority to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The Authority deposits all receipts into a “revenue fund” which is used to pay operating expenses and then to fund the restricted bond accounts.

The Authority was notified in December 2013 and subsequently at various times in 2014 by the Bond Trustee for Heritage Grove, that certain events of default were alleged by the Trustee to exist under the loan agreement dated December 31, 2003. The Trustee requested the alleged events of default be cured. The Authority does not agree with the Trustee’s depiction of all alleged events of default, but continues to work with the Trustee and bond insurer to address what the Authority deems to be largely technical or unavoidable issues not presently preventing the Authority’s operation of the project and the Authority’s ability to make bond payments.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds: (Continued)

(d) **Long-term Debt** (Continued)

The Series 2003 Revenue bond debt service to maturity is as follows:

	Principal	Interest
2015	\$ 635,000	\$ 965,658
2016	–	937,083
2017	–	937,083
2018	2,085,000	937,083
2019	–	839,037
2020-2024	4,205,000	3,985,188
2025-2029	–	3,144,188
2030-2033	12,270,000	2,515,350
	\$ 19,195,000	\$ 14,260,670

Notes Payable

Notes payable consisted of the following at September 30, 2014:

5.70% note payable to corporation, payable \$9,640 monthly, including interest, uncollateralized, due October 2014	\$ 28,482
2.67% note payable to corporation, payable \$15,262 monthly, including interest, uncollateralized, due November 2014	15,229
Total long-term debt	43,711
Less: current portion	43,711
Total long-term debt, less current portion	\$ –

At September 30, 2014, notes payable maturities for the next five years, and in the aggregate, were as follows:

Year ended September 30,	Amount
2014	\$ 43,711

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds: (Continued)

(d) **Long-term Debt** (Continued)

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2014, was as follows:

<u>Business-type activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 1998A revenue bonds payable	\$ 8,820,000	\$ -	\$ 360,000	\$ 8,460,000	\$ 380,000
Series 1998B revenue bonds payable	20,500,000	-	-	20,500,000	-
Series 2003 revenue bonds payable	19,800,000	-	605,000	19,195,000	635,000
Note payable	48,696	187,264	192,249	43,711	43,711
Total changes in long-term liabilities	<u>\$ 49,168,696</u>	<u>\$ 187,264</u>	<u>\$ 1,157,249</u>	<u>\$ 48,198,711</u>	<u>\$ 1,058,711</u>

(e) **Management Agreement**

Southgate Fund

The Authority, with the consent, approval and joinder of the Series 1998 A and B bondholders of Southgate, renewed the management agreement with Asset Campus Housing, Inc. (“the Manager”), to provide dormitory management, retail space management, parking garage management and manual food service for the Southgate Residence Hall. The agreement is for a term of three years and commenced August 1, 2012, terminating July 31, 2015, with one year renewal options thereafter. Since the 1998 financing of Southgate, the active participation, consent and approval of the Series 1998 A and B bondholders has been required for the selection and retention of a management company by the Authority for the Southgate Residence Hall. The participation of the bondholders in the selection and retention of management at Southgate, as well as their regular monitoring of the financial activities and performance of the management of the facility, is considered by the Authority as a benefit and safeguard to the Southgate Residence Hall in that the bondholder representatives are possessed with expertise in the finances of student housing projects such as Southgate and therefore are able to provide an extra level of analysis and scrutiny of the management company and its operations, serving both the Southgate Residence Hall and its investors.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

II. Detailed Notes on all Funds: (Continued)

(e) **Management Agreement** (Continued)

Southgate Fund (Continued)

Together with the Authority, the Series A and B bondholders must also specifically approve all budgets for the Southgate Residence Hall operations proposed by the Manager, as well as any deviations or changes to the budget. The Trustee is prohibited from disbursing any funds to the management company, or otherwise on behalf of Southgate, without ascertaining that such disbursements are consistent with the approved budget, or, if not, are specifically approved by the appropriate bondholder representative, in addition to the Authority.

The Manager is compensated in the form of a base compensation fee (the “*Base Management Fee*”) equal to 3.0% of gross monthly receipts if occupancy is below 90%. In addition, the Authority is to pay, in arrears, an additional 0.25% of gross monthly receipts if the property reaches between 91.0% and 95.0% occupancy. If occupancy reaches 95.0% or greater, the fee will increase another 0.25% and remain at 3.5% of gross monthly receipts, unless property occupancy falls below 95.0%. Payment of the Base Management Fee will be made from the Operating Account monthly beginning on August 1, 2012, and thereafter on or before the fifth (5th) day of each succeeding month during the term of this Agreement. Upon the termination of this Agreement on a day other than the last day of the calendar month, the Base Management Fee shall be prorated on a per diem basis up to the date of termination.

In addition to the Base Management Fee (and any other fees paid to and expenses reimbursed to the Manager) and in order to provide incentive to the Manager to generate increased revenue at the Property, the Authority has agreed to pay to the Manager incentive fees (the “*Incentive Fees*”) in the following manner: If the property should reach 90.0% occupancy, \$45,000 shall be paid to the Manager. If the property should reach 95.0% occupancy, an additional \$10,000 (a total of \$55,000) shall be paid to the Manager. The term “gross receipts” for the purposes of this Agreement shall include all proceeds from rent and from business interruption insurance, if any, but shall not include tenant security deposits unless forfeited and recognized as income by the Authority, nor shall such gross receipts include insurance loss proceeds, or any award or payment made by any governmental Authority in connection with the exercise of any right of eminent domain or any proceeds from the sale, exchange, mortgaging or refinancing of the Property. With regard to any Incentive Fee which would be owed to the Manager for any partial fiscal year (because of expiration or termination of this Agreement prior to the end of the applicable fiscal year), the calculation of the Incentive Fee for such a partial fiscal year will be determined based upon the gross receipts from the Property (on a cumulative annualized basis) for such partial fiscal year, and the Incentive Fee shall not exceed twenty percent (20%) of the total compensation payable to the Manager, including the Base Management Fee and the Incentive Fee, for such partial fiscal year. The Authority shall pay the Incentive Fee to the Manager only upon completion of the annual audit for the applicable fiscal year. Management fees paid by the Southgate Fund for the year ended September 30, 2014 totaled \$272,622.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

II. Detailed Notes on all Funds: (Continued)

(e) **Management Agreement** (Continued)

Heritage Grove Fund

The Authority entered into an agreement with a corporation to rent, operate and manage the Project for a term of three years commencing on August 1, 2012 provided, however, that notwithstanding anything to the contrary, this agreement will terminate earlier if the Project is sold by the Authority. The owner has the right to terminate the Management Agreement on the last day of every contract year without cause and without penalty. The Manager will be compensated as follows:

% of Total Gross Revenue		
3.0%	If the economic occupancy is	Below 90%
3.5%	If the economic occupancy is	90% – 94%
4.0%	If the economic occupancy is	95% – 96%
4.5%	If the economic occupancy is	97% – 98%
5.0%	If the economic occupancy is	99% – 100%

Management fees paid by the Heritage Grove Fund for the year ended September 30, 2014 totaled \$135,992.

III. Other Information:

(a) **Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries various insurance coverages.

(b) **Commitments and Contingencies**

The Authority is party to routine legal proceedings and litigation (tenant evictions and the like) arising in the ordinary course of business. In the opinion of management, the outcome of such routine actions will have no material impact on the Authority's financial condition.

Of extraordinary note, however, as has been regularly reported to the Authority by its legal counsel and Heritage Grove management, Coastal Property Services, Inc.; significant issues pertaining to the original construction of the apartment buildings, discovered in the course of routine repair and inspection in May of 2012, continue to be addressed. These issues will continue to impact the property's operating funds and budget until resolution, as the management company has or may be required to offer rent concessions to maintain adequate occupancy levels while the property awaits or is under repair. Original estimates were that the cost to correct the issues would be in the neighborhood of \$3 million; however subsequent investigations and inspections of the extent of the deficiencies arising from the original construction, and more recent estimates as to projected repair costs of same may be as much or more than \$6 million. A lawsuit against the original

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

III. Other Information: (Continued)

(b) Commitments and Contingencies (Continued)

Heritage Grove Fund (Continued)

development/design/construction team for Heritage Grove was filed by the Authority, and while a negotiated settlement is being pursued in an effort to more quickly obtain damages/compensation to effectuate necessary repairs, the Authority will continue to aggressively prosecute the case through trial if necessary. The cost of litigation will also impact the Authority's funds which might otherwise be available for the project or other Authority purposes. The Authority is also seeking temporary financing from outside sources which may allow further repairs to the property pending the outcome of the litigation.

The Authority was additionally named as a defendant in a lawsuit over a leasehold interest in a vacant parcel within the Heritage Grove project. The lawsuit claims that the lessee of such interest is entitled to terminate its obligations thereunder and be refunded monies provided by it in the initial development of the project, which was consideration to induce the Authority to allow such lessee use of the property to develop its own student housing. The Authority's position is that it has valid defenses against such claim and that is not obligated to the lessee for any refund; nonetheless the Authority and the lessee are actively engaged in good faith negotiations to resolve the claim, whereby the Authority would retake possession of the leasehold interest in exchange for a reasonable release payment to the lessee, after which the Authority may then develop the vacant parcel for its own student housing purposes, or assign the interest to another appropriate entity for student housing development.

(c) Restatement of Beginning Net Position

In March 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, Elements of Financial Statements, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources on the statement of net position. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities, such as debt issuance costs, as current-year outflows and inflows of resources reported on the statement of revenues, expenses, and changes in net position. The requirements of GASB 65 are effective for fiscal year 2014. The implementation of GASB 65 will result in the removal of \$902,499 in the Heritage Grove Fund and \$386,070 in the Southgate Fund, of unamortized bond issuance costs, as of September 30, 2013 and result in the reduction of beginning net investment in capital assets by the same amount. In addition, subsequent to the issuance of the Authority's September 30, 2013 financial statements, management determined that the financial statements were misstated due to an understatement of deferred revenues in the Southgate fund of \$460,284. The correction of these errors in the September 30, 2014 statements decreased the Southgate Fund's beginning net position by \$460,284.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY

ADDITIONAL INFORMATION

SEPTEMBER 30, 2014

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
SCHEDULE OF OTHER OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Other operating expenses				
Legal and professional fees	\$ 44,963	\$ 38,943	\$ 228,348	\$ 312,254
Bad debts	6,771	42,735	-	49,506
Telephone and internet	17,740	2,018	-	19,758
Management fees	272,622	135,992	-	408,614
Taxes	127,887	689	-	128,576
Property insurance	129,790	111,562	-	241,352
Other	228,358	82,015	14,204	324,577
Bank and credit card fees	30,056	10,144	-	40,200
Contract services	151,064	3,359	-	154,423
Scholarships	-	-	20,000	20,000
Reimbursement of common area expenses	-	(114,802)	-	(114,802)
Total other operating expenses	\$ 1,009,251	\$ 312,655	\$ 262,552	\$ 1,584,458

- See accompanying Independent Auditors' Report. -

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Leon County Educational Facilities Authority as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Leon County Educational Facilities Authority's basic financial statements, and have issued our report thereon dated February 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Leon County Educational Facilities Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leon County Educational Facilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Leon County Educational Facilities Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses:

- 29 -

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386/257-4100
Fax: 386/255-3261
dab@jmco.com

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352/378-1331
Fax: 352/372-3741
gmv@jmco.com

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850/386-6184
Fax: 850/422-2074
tlh@jmco.com

Finding 2014-01: Segregation of Duties—Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. We believe that the following practices could be implemented by the Authority and management at the Southgate Residence Hall to improve existing internal control without impairing efficiency:

- Cash receipts should be received by an employee not responsible for accounting. Cash receipts should be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, should be forwarded to the accounting staff for postings to the general ledger and detail customer accounts.

Finding 2014-02: Significant Adjustments- During the course of the audit, significant adjustments were made in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States of America (GAAP). We recommend management implement controls to ensure the budget basis financial statements are converted to “GAAP” basic financial statements prior to the audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leon County Educational Facilities Authority’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described as follows:

Finding 2014-03: Fixed Charges Coverage Ratio-The loan agreement related to the financing of the Heritage Grove Project requires in Section 8.08 entitled “Rate Covenant,” that the project be operated in such a manner that the Fixed Charges Coverage Ratio be at least 1.2. In the event that it falls below the 1.2, the Authority is required to engage a financial consultant acceptable to the Bond Issuer to submit a report containing recommendations to remedy the Ratio noncompliance. In no event shall the Fixed Charges Coverage Ratio fall below 1.00. The Fixed Charges Coverage Ratio for the year ended September 30, 2014 was 1.01, calculated as follows:

Operating income	\$ 638,836
Depreciation and amortization	965,133
Interest and other income	631
Revenue Available for Fixed Charges	<u>\$ 1,604,600</u>
Principal payments	\$ 605,000
Interest payments	982,126
Fixed Charges	<u>\$ 1,587,126</u>
Fixed charges coverage ratio	1.01

Since the fixed charges coverage ratio is greater than 1.0 but less than 1.2, the Leon County Educational Facilities Authority is required to engage a financial consultant as stated above.

Leon County Educational Facilities Authority's Response to Findings

Leon County Educational Facilities Authority's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. Leon County Educational Facilities Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tallahassee, Florida
February 28 2015

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED BY CHAPTER
10.550, RULES OF THE STATE OF FLORIDA OFFICE OF THE AUDITOR GENERAL**

To the Authority Members,
 Leon County Educational Facilities Authority:

Report on the Financial Statements

We have audited the financial statements of Leon County Educational Facilities Authority, as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated February 28, 2015.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 28, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report except as noted in the table below.

Tabulation of Uncorrected Audit Findings			
Description	Current Year Finding/Recommendation #	2012-13 FY Finding #	2011-12 FY Finding #
Segregation of Duties	Finding 2014-01	Finding 2013-01	NA
Significant Adjustments	Finding 2014-02	Finding 2010-01	Finding 2010-01
Fixed Charges Coverage Ratio	Finding 2014-03	Finding 2009-01	Finding 2009-01
Updated Lease Agreements	Finding 2014-04	Finding 2013-02	NA

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This is disclosed as required by accounting principles generally accepted in the United States of America in Note I to the financial statements. There are no components units related to the Leon County Educational Facilities Authority.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not Leon County Educational Facilities Authority has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Leon County Educational Facilities Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Leon County Educational Facilities Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for Leon County Educational Facilities Authority for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had the following recommendation:

Finding 2014-04: Update Lease Agreements for New Terms-During our tests over tenant lease agreements, we noted thirteen instances where students changed payment and/or meal plan options subsequent to signing their original lease agreement. We also noted two instances where the security deposit amount in the lease agreement did not agree to the security deposit listing. Although the online accounting system had been updated for the new payment terms, there was no signed documentation evidencing the change. Without a new signed agreement, confusion and errors can occur in invoicing for tenants. In addition, claims for unpaid rent cannot be properly substantiated. We recommend that all changes to lease agreements be evidenced by a signed lease addendum.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.

Tallahassee, Florida
February 28, 2015

INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

To the Authority Members
Leon County Educational Facilities Authority:

We have examined Leon County Educational Facilities Authority's compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2014. Management is responsible for Leon County Educational Facilities Authority's compliance with those requirements. Our responsibility is to express an opinion on Leon County Educational Facilities Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Leon County Educational Facilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Leon County Educational Facilities Authority's compliance with specified requirements.

In our opinion, Leon County Educational Facilities Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

James Moore & Co., P.L.

Tallahassee, Florida
February 28, 2015

- 35 -

121 Executive Circle
Daytona Beach, FL 32114-1180
Telephone: 386/257-4100
Fax: 386/255-3261
dab@jmco.com

5931 NW 1st Place
Gainesville, FL 32607-2063
Telephone: 352/378-1331
Fax: 352/372-3741
gnv@jmco.com

2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308-4386
Telephone: 850/386-6184
Fax: 850/422-2074
tlh@jmco.com

Leon County Educational Facilities Authority

William W. Hilaman, Chair

*Patrick H. Dallet • Lori Billberry • Dennis Bailey
Tom Proctor, Jr. • Joe Weil • Terrell C. Madigan, General Counsel
R. Randy Guemple, Executive Director*

LEON COUNTY EDUCATIONAL FACILITY AUTHORITY CORRECTIVE ACTION PLAN FOR THE YEAR ENDED SEPTEMBER 30, 2014

Finding 2014-01 – Segregation of Duties

An additional employee with accounting and bookkeeping experience has been hired to assist with the day to day activities of Southgate. All deposits are now deposited into the account via an automatic check scanning device by the new employee. Furthermore, a separate employee keeps a log of all the payments that come in to ensure each payment is accounted for when deposits are finalized.

Finding 2014-02 – Significant Adjustments

The Authority will review more closely the monthly financial statements provided by the management companies of Southgate and Heritage Grove.

Finding 2014-03 – Fixed Charges Coverage Ratio

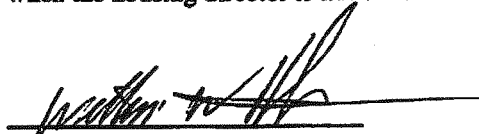
Heritage Grove (LCEFA Ocala Road, LLC) requested a waiver from the bond insurer (ACA) regarding the coverage ratio for 2012 and was denied. Heritage Grove then hired a consultant per the bond requirements to evaluate operations of the property to look for opportunities to improve net operation income.

The consultant's report was generated on October 17, 2012, by Asset Campus Housing, a nation-wide organization who has a firm knowledge of the Tallahassee student housing market. The report stated that Heritage Grove is above or at the top of the market for a 2 bedroom / 2 bath student housing unit. This combined with the fact that Heritage Grove is physically and amenity limited in competing with the newer properties that have been built restricts opportunity for increased rents.

Operating results for Heritage Grove for the fiscal year ended September 30, 2014 have improved compared to the year ended September 30, 2013 with revenues increasing \$25,645 and operating expenses decreasing \$70,729 for an increase in operating income of \$96,374. This is a 17.8% increase over the operating results for fiscal year ended September 30, 2013.

Finding 2014-04 – Updated Lease Agreements

Issue occurred due to housing director taking a leave of absence. Going forward, new processes have been set up to account for this by means of other employees handling the addendums and updating of files when the housing director is not available.



William W. Hilaman, Chairman

P.O. Box 11154, Tallahassee, FL 32302
(850) 228-3982